

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**



ITEM: 2.13
(ID # 13303)

MEETING DATE:
Tuesday, August 25, 2020

FROM : AUDITOR CONTROLLER:

SUBJECT: AUDITOR-CONTROLLER: Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services, Countywide Procurement Card Audit, District: All. [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services, Countywide Procurement Card Audit

ACTION: Consent


Paul A. Angulo, County Auditor-Controller 8/14/2020

MINUTES OF THE BOARD OF SUPERVISORS

**SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA**

BACKGROUND:

Summary

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Purchasing and Fleet Services to provide an independent assessment of internal controls over the use of procurement cards.

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	\$ 0	\$ 0	\$ 0	\$ 0
NET COUNTY COST	\$ 0	\$ 0	\$ 0	\$ 0
SOURCE OF FUNDS: N/A			Budget Adjustment: No	
			For Fiscal Year: N/A	

C.E.O. RECOMMENDATION: Approve

Impact on Residents and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENT A.

Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services, Countywide Procurement Card Audit


Stephanie Perez, Principal Management Analyst 8/17/2020

Internal Audit Report 2020-011

**Riverside County
Purchasing and Fleet Services,
Countywide Procurement Card
Audit**

Report Date: August 25, 2020



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Riverside County Auditor-Controller

Tanya S. Harris, DPA, CPA
Assistant Auditor-Controller

August 25, 2020

Teresa Summers, Director
Riverside County Purchasing and Fleet Services
2980 Washington Street
Riverside, CA 92507

Subject: Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services, Countywide Procurement Card Audit

Dear Ms. Summers:

In accordance with Board of Supervisors Resolution 83-338, we audited the Riverside County Purchasing and Fleet Services to provide an independent assessment of internal controls over the use of procurement cards.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

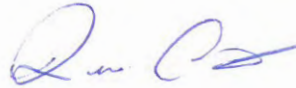
Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

Based upon the results of our audit, we identified improvement opportunities for internal controls over the management of the Riverside County Procurement Card Program.

**Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services,
Countywide Procurement Card Audit**

As requested, in accordance with paragraph III.C of the Board of Supervisors Resolution 83-338, management responded to each reported condition and recommendation contained in our report. Management's responses are included in the report. We will follow-up to verify that management implemented the corrective actions.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Chief Internal Auditor

cc: Board of Supervisors
George Johnson, County Executive Officer
Grand Jury

**Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services,
Countywide Procurement Card Audit**

Table of Contents

	Page
Executive Summary	4
Results:	
Procurement Cards.....	6

**Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services,
Countywide Procurement Card Audit**

Executive Summary

Overview

The County's Procurement Card program was developed to improve efficiencies associated with the procurement process and reduce the cost associated with making purchases and processing vendor payments. The program requires compliance with current statutes and county procurement procedures and is intended to improve the timely delivery of products and services.

The Riverside County Purchasing & Fleet Services (Purchasing) is responsible for managing and monitoring the overall program. Additionally, Purchasing administers the training required for all program participants, establishes and communicates rules and guidelines, oversees participants' compliance with the county's procurement policies and procedures, and coordinates the interface between U. S. Bank and the county. Cardholders are required to comply with the Procurement Card Manual as written by Purchasing. Additionally, cardholders must complete the training prior to being provided with a procurement card.

The procurement card policy has controls developed and implemented that are different than traditional credit cards. The controls ensure the cards can be used only for specific types of purchases with established dollar limits. Additionally, approving officials assigned to each cardholder are required to provide prior approval on the purchases. The cardholder is responsible to verify all purchases once card statement is obtained.

As an integral part of a county department's internal control structure, management within each department is responsible for a system of internal controls that effectively and efficiently performs financial related activities and safeguards assets. The system should provide management with reasonable assurance that assets are properly safeguarded against loss from unauthorized use or theft, and transactions are executed in accordance with management's authorization.

Purchasing authorized approximately 398 procurement cards to cardholders located in 33 departments, 276 of which were assigned to the 12 departments included in the countywide procurement card audit. Each card holder is granted a single transaction amount, number of transactions per day and a monthly spending limit. Limits are established for each cardholder at the single transaction amount, number of transactions per day, and monthly transaction amount by department management requesting the

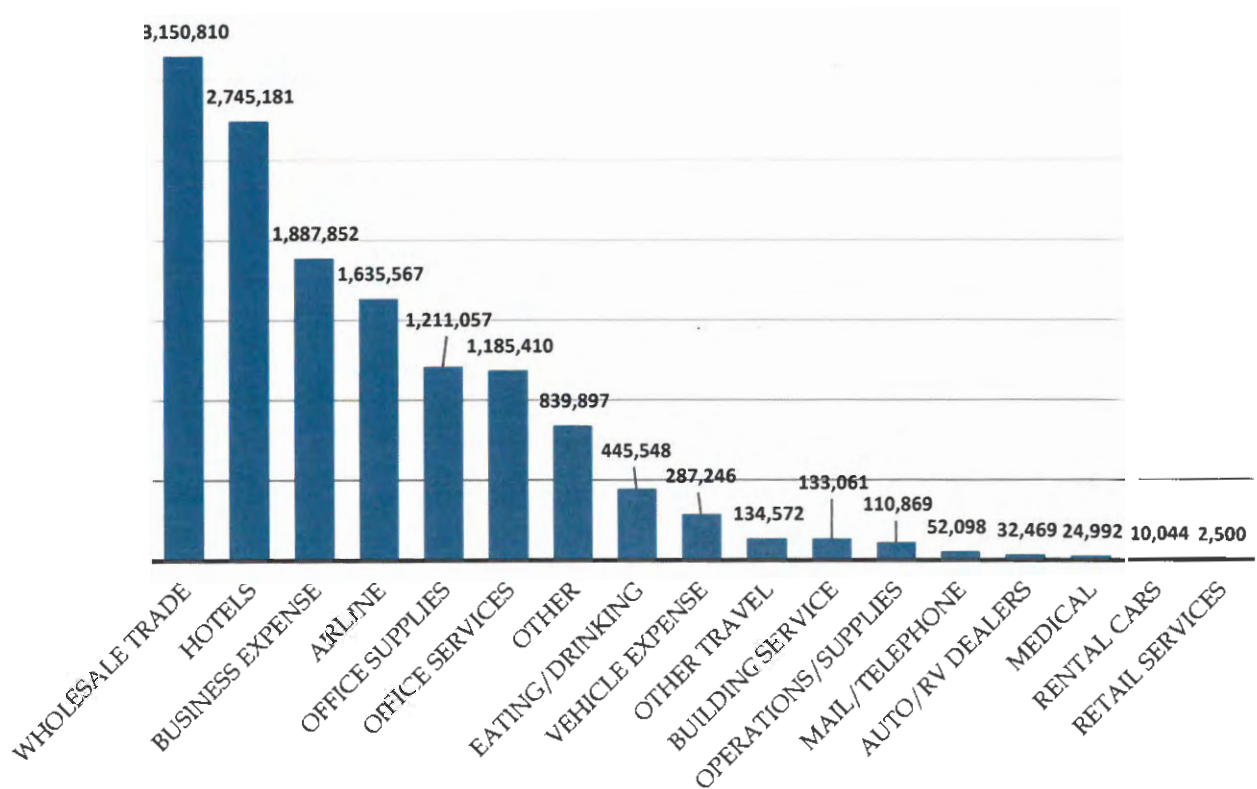
**Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services,
Countywide Procurement Card Audit**

procurement cards. Certain goods and services are excluded with the merchant category code, which is a four-digit code assigned to a merchant by its merchant bank. This code identifies the type of business the merchant conducts.

For the period July 1, 2017, through December 31, 2019, the procurement card program had expenditures totaling \$13,889,173 (See Table 1 for total countywide expenditures by merchant category) for 33 departments. We selected 12 departments with expenditures in the period which were reported to the Auditor-Controller's Office for review. These 12 departments represent \$9,720,423 of the \$13,889,173 expended through the county's procurement card program during July 1, 2017, through December 31, 2019.

Table 1: Countywide Procurement Card Transactions

**Countywide Procurement Card Transactions
(July 1, 2017, through December 31, 2019)**



**Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services,
Countywide Procurement Card Audit**

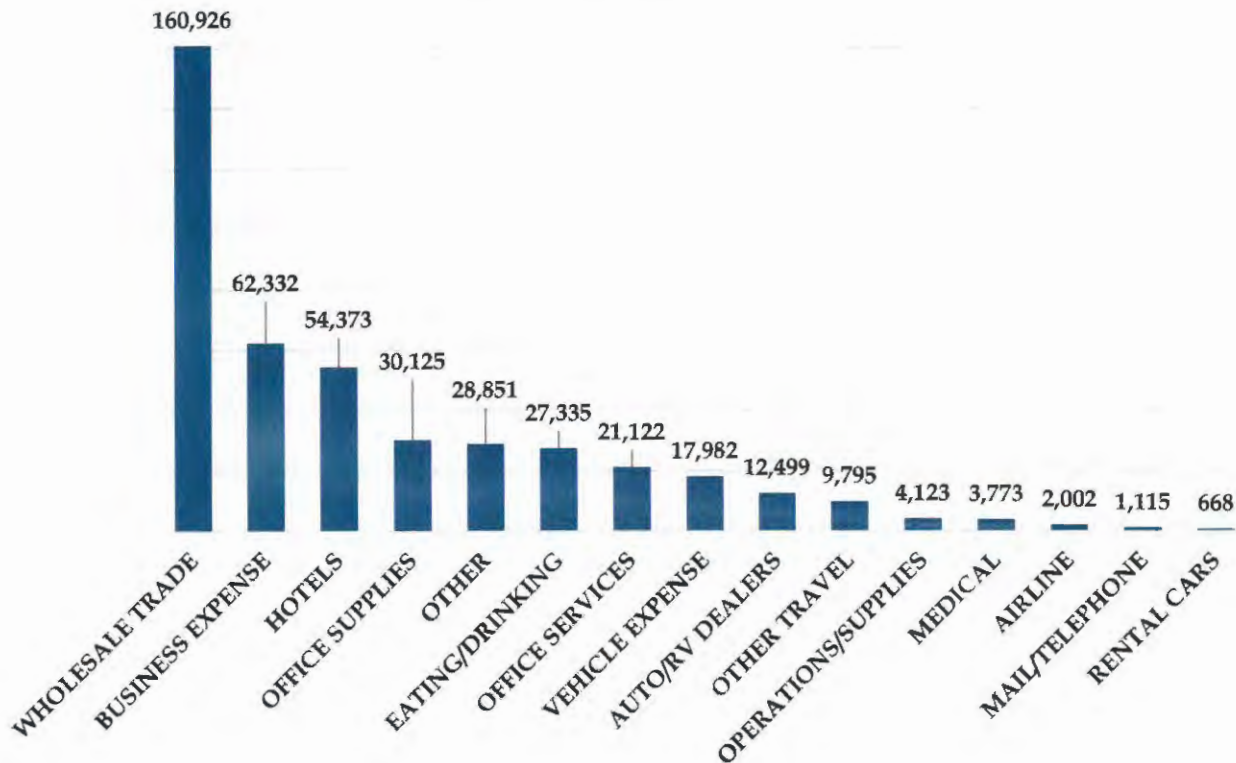
Procurement Cards

Background

As of December 30, 2019, Purchasing had 29 procurement cardholders. For the period July 1, 2017, through December 31, 2019, Purchasing had 634 procurement card transactions totaling \$437,020.

The chart below illustrates procurement card expenditures by category for the audit period in the following categories: wholesale trade, business expense, hotels, office supplies, other , eating/drinking, office services, vehicle expense, auto/rv dealers, other travel, operations/supplies, medical, airline, mail/telephone, and rental cards. Expenditures for the top four merchant groups include wholesale trade at \$160,926, business expense at \$62,332, hotels at \$54,373, and office supplies at \$30,125 which represent 70% (or \$307,756) of the total procurement card transactions.

**Purchasing and Fleet Services Procurement Card Transactions
(July 1, 2017, through December 31, 2019)**



Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services, Countywide Procurement Card Audit

Audit Objective

Our objective is to provide an independent assessment of internal controls over the use of procurement cards and its management of the procurement card program. Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and nonfinancial information.

Audit Scope and Methodology

We conducted the audit from December 2, 2019, through March 31, 2020, for operations from July 1, 2017, through December 31, 2019. To accomplish our objectives, we included the following:

- Reviewed county policies and procedures, specifically:
 - County of Riverside Procurement Card Program, Procedure Handbook (last revised 8/1/2016)
 - Board Policy A-62, *Credit Card Use*
 - Board Policy D-1, *Reimbursement for General Travel and Other Actual and Necessary Expenses*
- Obtained and reviewed Purchasing's procurement card program responsibilities in regards to the termination of procurement cards when notified by county departments of employees ending employment.
- Reviewed and analyzed Purchasing's responsibility for establishing dollar limitations and vendor restrictions as requested by county departments in cardholder agreements.
- Obtained and analyzed department policies and other documents to confirm compliance with county's procurement card policies and procedures.
- Analyzed procurement card data pulled from Riverside County financial systems and U.S. Bank for the audit period.
- Examined cardholder transaction logs, receipts, and credit card statements.
- Selected a sample of purchased items for physical existence of items.

**Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services,
Countywide Procurement Card Audit**

- Verified appropriate levels of management review and approval.
- Obtained and reviewed a listing of all procurement card holders.
- Interviewed key personnel regarding procurement card internal controls and their processes.

Audit Highlights

Existing Conditions

The current processes have not mitigated the following risk areas:

- Purchasing does not maintain adequate records for procurement cancellation dates. This prohibits the department from adequately monitoring procurement card cancellations and ensuring the cards are immediately cancelled upon request from respective departments.
- Individual procurement card accounts are not updated with merchant category codes as requested by county departments in cardholder agreements. As a result, the internal control meant to limit the types of purchases made by cardholders and safeguard county resources are not operating as designed through the Procurement Card Program.
- Procurement card account established with a 30-day dollar limit in excess of \$494,999 than the limit requested by a county department in the cardholder agreement.

Improvement Opportunities

The improvement opportunities are in the following areas:

- Ensure Purchasing is maintaining accurate records and documentation to support procurement card cancellation dates and adequately monitor the cancellation of procurement cards upon county departments requests.
- Revise Procurement Card Program Procedure Handbook in accordance with Board Policy A-62, *Credit Card Use*, to ensure the immediate deactivation of procurement cards when a procurement cardholder ends employment with a county department.

**Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services,
Countywide Procurement Card Audit**

- Ensure Purchasing is updating individual procurement cardholder accounts with the merchant category codes requested by county departments on cardholder agreements.
- Ensure Purchasing is establishing procurement cardholder account 30-day dollar limits correctly with the amount requested on cardholder agreements.

Audit Conclusion

Based upon the results of our audit, we identified improvement opportunities for internal controls over the management of the Riverside County Procurement Card Program.

Finding 1: Management of Procurement Card Program

We identified the following in our countywide review of procurement cardholder expenditures and supporting documentation. The items addressed in this finding pertain to the role Purchasing has in monitoring and managing the procurement card program.

- Based on our review, Purchasing is not maintaining accurate records for procurement card termination dates. We identified inaccuracies in procurement card cancellation dates maintained by Purchasing. These inaccuracies included listing termination dates for procurement card accounts that remained open and not listing procurement card termination dates for cards that had been closed. The Procurement Card Program Procedure Handbook requires the Procurement Card Program Coordinator "ensure and document destruction of un-needed and canceled cards." Maintaining inaccurate records of terminated procurement cards can lead to procurement cards remaining open after an employee has ended county employment and the risk of fraud. This also prohibits Purchasing from adequately monitoring procurement card cancellations upon request from county departments.
- Individual procurement card accounts were not updated with merchant category codes requested by county departments in the cardholder agreements. In addition, we identified procurement card expenditures where cardholders made purchases from an unauthorized merchant category as a result of Purchasing not updating individual procurement card accounts with merchant category codes. Merchant category codes is a control in the Procurement Card Program that prevents cardholders from using procurement cards at certain merchants based on their

**Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services,
Countywide Procurement Card Audit**

merchant activity classification. Department officials establish merchant categories with signatures in the cardholder agreement when procurement cards are issued. The Procurement Card Program Procedure Handbook requires the Procurement Card Program Coordinator to assign "the desired code at account setup." As a result, the internal control meant to limit the types of purchases made by cardholders and safeguard county resources are not operating as designed through the Procurement Card Program.

- A procurement cardholder account was established with a 30-day dollar limit that was higher than the limit requested by the department. We verified a 30-day dollar limit of \$4,999.99 was requested for a cardholder and a \$499,999.00 limit was established instead. The 30-day purchase limit "determines the maximum dollar amount that will be authorized for a Cardholder within a 30-day billing cycle" and must be established during the procurement card account setup. Additionally, the Procurement Card Program Procedure Handbook states the 30-day dollar limit "should be the amount that a Cardholder would be reasonably expected to spend during that period."

The Riverside County Auditor-Controller's Office Standard Practice Manual 1001, *Internal Controls*, states, "Well-documented policies and procedures are established and maintained to promote employee understanding." The Procurement Card Program Procedure Handbook states the procurement card program coordinator is responsible for the application and modification of procurement cards in addition to ensuring existing procurement regulations are not circumvented. Not adhering to the procedures can lead to program inefficiencies, inadequate monitoring of the Procurement Card Program, and increase the risk of theft or loss of county resources.

Recommendation 1.1

Ensure procurement card cancellation dates are accurately maintained and supported with documentation.

Management's Response

"Concur. Purchasing maintains accurate records of cancellations. Upon notification from a department of a card cancellation, Purchasing updates our internal database and accesses the US Bank portal to deactivate the card. A copy of the notification from a department to cancel a card is placed with the cardholder's agreement on file for documentation. US Bank does not maintain records of the initial deactivation of a card

**Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services,
Countywide Procurement Card Audit**

as their monthly routine system maintenances overrides all termination data. To help document the actual entry date in the US Bank portal, Purchasing staff implemented a procedure to take a screenshot from the US Bank's website the day a card is canceled and maintain this documentation in our files."

Actual/estimated Date of Corrective Action: **July 1, 2020**

Recommendation 1.2

Revise procurement card Program Procedure Handbook in accordance with Board Policy A-62, *Credit Card Use*, to ensure the immediate deactivation of procurement cards when a procurement cardholder ends employment with a county department.

Management's Response

"Partially concur. The Program Procedure Handbook currently references that card holders must comply with Board Policy A-62 and includes a section on Canceling A Card (page 19 of handbook). The handbook is currently being revised and will stress the importance of the timely notification by departments to advise Purchasing when cardholders' end employment with the county department."

Actual/estimated Date of Corrective Action: **September 1, 2020**

Recommendation 1.3

Ensure department is updating procurement cardholder accounts with merchant category codes as requested by county departments.

Management's Response

"Concur. Cardholders are automatically blocked from several merchant codes. Purchasing will be updating procedures that will advise County departments of the list of merchant codes that are currently automatically blocked per the county by US Bank, that prohibits the cardholder from purchasing items or services that fall within the merchant code. Departments will have the option to choose additional merchant codes to restrict per each cardholder from a list of merchant codes provided by US Bank. Purchasing will then apply the additional restrictions to the individual cardholder.

Actual/estimated Date of Corrective Action: **September 1, 2020**

**Internal Audit Report 2020-011: Riverside County Purchasing and Fleet Services,
Countywide Procurement Card Audit**

Recommendation 1.4

Ensure Purchasing is establishing procurement cardholder account 30-day dollar limits correctly with the amount requested on the cardholder agreement.

Management's Response

"Concur. During the Auditor Controller review of cardholder dollar limits it was identified that a typographical error occurred in the entry of the 30-day dollar limit; the individual transaction limit was entered incorrectly. Purchasing has revised procedures to provide for an additional review of the entry into the US Bank portal for validation of the correct entry and that all documentation is captured and maintained."

Actual/estimated Date of Corrective Action: **July 20, 2020**